

# Creating Competitive Advantage with Branded Long-Stay Accommodation

Bachelor's Thesis  
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### Abstract

Global marketplace of rental apartments and hotels have been changing largely during past few decades. Globalization has driven the change in work-life, which sometimes requires employees to move for short periods of time to other cities and countries. Meanwhile elderly people are more and more wealthy and healthy, with the willingness to maintain freedom during the retirement years.

Branded long-stay accommodation has multiple benefits for these groups. Branded long-stay accommodation combines the sizeable rooms of rental apartments with the high-quality services of hotels to offer customers high-end product and value for their money at the same time.

Purpose of this study is to recognise the competitive advantage drivers that branded apartments can bring for each stakeholder. Main finding is that the brand strength and the service quality made possible by branding apartments can result in better revenue than apartments or hotels traditionally could.

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**Keywords** long-stay hotels, branded apartments, competitive advantage

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## 1. Introduction

During 1970s, extended stay segment began to emerge in the US (American Hotel & Lodging Association, 2012; Zhenxing & Qinglin, 2014). Major hotel companies, like InterContinental Hotel Group (IHG) and Marriott, launched their extended stay brands in the mid-1990s, which is when the extended stay market started to grow quickly (Zhenxing & Qinglin, 2014). In Europe, extended stay product started to develop in the early 2000s (Geieregger & Oehmichen, 2008). Worldwide there was over 400 extended stay properties and 55,000 extended stay units in 2018. Approximately one third of these properties are in the US, and 85 per cent of them are hotel branded (Savills, 2018).

This study is important because the globalization changes business faster than ever. Businesses need to be more flexible in their functions, and therefore there needs to be flexible solutions for the personnel of the companies to be able to get high quality accommodation wherever the business requires them to accommodate. It's very common that companies send their best experts to work close to the key clients and accommodation is an important element that must be considered in these situations. Renting or buying an apartment isn't flexible enough – and staying in traditional hotel for months can be very expensive, boring and nerve-wracking for the top experts.

This change has led to growing demand of more flexible accommodation options without decreasing the quality of accommodation. Supply has responded to that and new concepts of branded apartments have emerged rapidly. Furthermore, traditional hotel brands have extended their brand portfolio with long-stay hotel concepts, which combine the service quality and convenience of hotels with living conditions similar to traditional apartments.

My main research question is:

**How to create competitive advantage with branded long-stay accommodation?**

In addition, I will study multiple secondary research questions:

**What is long-stay accommodation?**

**What are the customer segments of long-stay accommodation?**

**How to create competitive advantage by branding?**

## 2. Definitions

### 2.1. Overview

Geieregger & Oehmichen (2008) categorize the extended stay product in three sub-categories: All-suite (long-stay) hotels, Serviced apartments and Aparthotels. These sub-categories differ from each other by the sizes of the rooms, service qualities and common areas.

Extended stay accommodation usually provides a suite-styled room, which can include for example kitchen with cooking appliances and a spacious living room (Zhenxing & Qinglin, 2014).

Upscale properties may provide laundry equipment to each apartment, cleaning services and restaurant/café, although usually these are outsourced to third parties. Sizes of the extended stay accommodation varies from studio apartments to three-bedroom apartments, and average extended stay property ranges from 100 to 120 keys (Geieregger & Oehmichen, 2008)

Extended stay accommodations do not have official classification system, but some of the properties that are operated with hotel-like service quality, are using the hotel star rating system. However, extended stay accommodations can roughly be classified in three classes – Mid-market, Upscale and Deluxe (Geieregger & Oehmichen, 2008).

Hotel star rating system, which is slightly different in different geographies, classifies hotels from 1 to 5 stars. The criteria includes multiple factors such as services, infrastructure, common spaces, amenities and the sizes of the rooms (Martin-Fuentes, 2016). The extended stay accommodations that have a hotel star rating usually range from 4 to 5 stars with hotels typically topping the apartments' ratings (Cassidy & Guilding, 2011).

To clarify, from now on I will only use the terms Serviced apartments and Long-stay hotels when referring to the category of the long-stay accommodation. Serviced apartments include branded and non-branded product, and Long-stay hotels include All-suite hotels and Aparthotels.

## 2.2. Long-stay Hotels

Hotel typically means place for temporary accommodation, and the hotel facilities usually include some services like restaurants, which other paying guests than hotel guests might also be able to utilize (Ekinici et al., 2003).

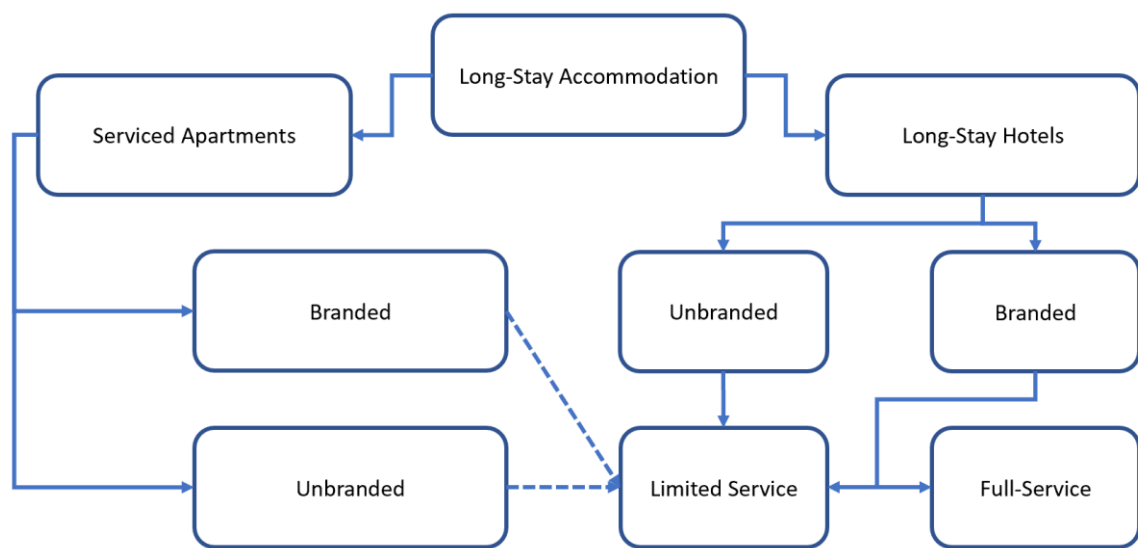
Long-stay hotels offer high quality accommodation with hotel-like service in urban location. Amenities are usually well-furnished rooms that include separate kitchen/dining areas. For business oriented guests, there can be a small working area/room where at least a desk, a chair and Internet access are provided (Geieregger & Oehmichen, 2008).

Long-stay hotels usually offer service comparable to traditional hotels, ranging from limited to full service. Most of the long-stay hotels are branded, but some unbranded limited service long-stay hotels exists as well (Cassidy & Guilding, 2011). In case of a long stay, it is cheaper for the guest to stay in long-stay hotel than traditional hotel, and they are often located in the vicinity of central business districts (Misbin, 2016).

## 2.3. Serviced Apartments

Serviced apartments are varying quality accommodations with more limited service than in all-suite hotels. (Geieregger & Oehmichen, 2008). Serviced apartments differ from long-stay hotels with usually more living space but less services available. Furthermore, serviced apartments can also be branded or unbranded (Cassidy & Guilding, 2011).

The purpose of serviced apartments is to provide guests home away from home experience instead of hotel experience. However, the benefit of serviced apartments is that the guest doesn't have to worry about normal household chores, which makes living more comfortable and simpler. Furthermore, the price is usually around 25 to 30 per cent less than in luxury-hotels (Deepeka, 2018). Serviced apartments performed financially better than hotels in 2019 in the U.K. market (STR, 2020).



Based on Cassidy & Guilding (2011).

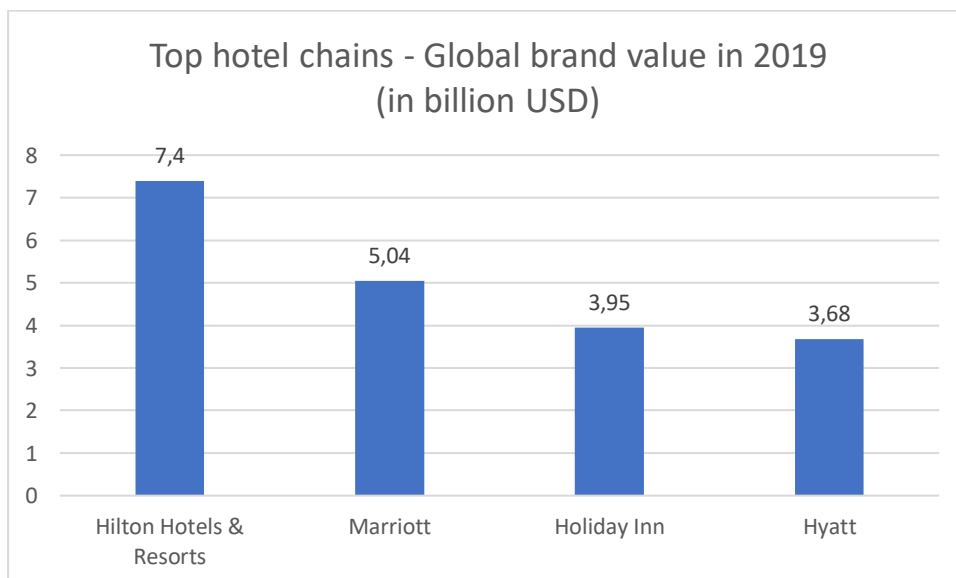


### 3. Current sub-markets

#### 3.1. Hotel markets

Global hotel market is 600-billion-dollar industry (Statista, 2019). In the United States hotel markets have grown for the past decade. Gross value of hotel bookings have steadily increased by almost 60% since the beginning of the decade (Deloitte, 2019). Every key figure indicates that 2019 was a record breaking year in the U.S. hotel market. However for the first time in many years, growth of supply outpaced the growth of demand (STR, 2020).

In Europe, hotel market reached its all time high in 2019. However, the growth was slower during past few years. Furthermore, the growth was uneven across the region with some cities outperforming others significantly. Hosting major events seems to have had a positive impact on growth numbers of certain cities (STR, 2020).



Based on Statista (2019).

### 3.2. Rental apartment markets

During the past few years, overall prices of housing have grown in most of the big cities of world. This is partially due to the growing demand of flexible rental properties (CBRE residential, 2019). In Europe, the home ownership rate has decreased from 77% to 75% since 2010. Most of the change has been due to renting becoming more affordable option in most of the bigger cities. However, there has been a significant growth in choosing a rental apartment as a lifestyle choice because of the flexibility (Savills, 2019).

Savills (2019) categorizes three main users of rental housing – small families, seniors and students. These categories have many common principles to be considered when designing rental units but also need to have some customization depending on the category's specific needs. Main shared principle within all categories is the emphasis on communal and shared spaces and amenities. Specialized principles are mostly about the size of the apartments, size of communal areas and potential services.

### 3.3. Shared accommodation markets (AirBnB etc.)

AirBnB, founded in 2008, has so far had over 50 million users over the years. AirBnB and other shared accommodation have had a growing impact in the long-stay accommodation markets. Every 1% of the market share that shared accommodation gets, lowers the total global hotel revenue by 0,05% (Zervas et al., 2017). Two thirds of AirBnB users use shared accommodation as a hotel substitute. The impact is bigger in the low-end hotels, independent hotels and hotels without many business travelers. The impact on upper scale accommodation has not

yet been found, although development in shared upscale accommodation has been starting to show (Guttentag & Smith, 2017). Traditional hotel chains have the potential to implement shared accommodation strategies into their business models because of the strong brand equity of the chains (Richard & Cleveland, 2016).

However, there is some claims that AirBnB is still mostly a complementary product for hotel offering (Guttentag & Smith, 2017). Most of the AirBnB properties are not located near the central business districts of cities. Furthermore, AirBnB has much more flexibility considering their supply compared to hotels (Zervas et al., 2017). Customers' accommodation choice process and preferences also have differences between traditional accommodation and shared accommodation (Guttentag & Smith, 2017)

## 4. Customer segments

### 4.1. Business

Business travelers prefer to utilize high quality hotel services when on a business trip to minimize stress (Gilbert & Morris, 1995). Weaver & Chul Oh (1993) found out that business travelers' most critical factors for hotel choice were "convenience for the business", "good reputation", "friendly staff", "cleanliness" and "safety and security facilities". Dubé & Renaghan (2000) found that "location", "brand name and reputation", "physical property", "value for money" and "guest-room design" were the top five criteria for business travelers'

hotel selection. Guizzardi et al. (2016) found out that location, price and reputation are the three most important hotel attributes for the business travel segment.

Dolcinar (2002) summarizes multiple studies about the business travelers' hotel selection process. The study contains two major findings:

1. Location, reputation and value for money are the three most important attributes.
2. Price has a different role for different hotel class guests.

Based on these findings Dolcinar (2002) conducts further studies about expectations and disappointments in different class hotels. The business travelers who stay in hotels most comparable to branded apartments, 5-star hotels, have several expectations on the accommodation. "Good service", "a good location", "pleasant atmosphere", "large rooms" and "comfort" are the most common expectations within the guests of this category. Biggest disappointment in this category was the overall poor service quality.

Travel policies are an effective way for companies to manage expenses and control efficiency of the business trips (Douglas & Lubbe, 2010). Companies and organizations are utilizing specific travel policies more and more. Over half of the companies have specific policy regarding the hotels used by their employees and one fifth of companies specify the hotel chain or brand the employees must use when possible (Gilbert & Morris, 1995).

## 4.2. Leisure

Besides business travelers, leisure travelers is an other major customer segment of hotels (Yavas & Babakus, 2005). Long-stay leisure travelers can generate a significant revenue for long-stay hotels (Tawinunt et al., 2015). Majority of long-stay leisure travelers are over 55 years old. They usually travel as a couple and their average length of stay is 17 nights. Purpose of their travel is mainly to enjoy relaxing lifestyle in a specific area for a longer period of time (Tkaczynski et al., 2010).

Leisure travelers value similar things to business travelers (Knutson, 1988). Employee attitude, location and rooms are shared attributes that both business and leisure segment values (Barsky, 1992).

## 4.3. Global nomads

Nomadism refers to a lifestyle where person moves from one place to another repeatedly for a short period of time without having a fixed residence or home, and the life of the nomads is usually organized around relationships and economic activities (Köhler-Rollefson 1993; Salzman 2002; Bardhi et al., 2012).

Modern era nomads are group of highly skilled professionals who voluntarily and frequently change their locations to flexibly work globally in a deterritorialized manner (Bardhi et al., 2012). Deterritorialization refers to individuals replacing culture connected locations with more global approach linked with modern technologies (Craig & Douglas, 2006).

Bardhi et al. (2012) notice a few common factors of people when studying deterritorialization:

- a. Not identifying home country or country of residence.
- b. They define home as where they live, rather than where they were born.
- c. Limited attachment to physical objects and structures.
- d. Lack of social attachment to locations.

#### 4.4. Elderly

Many elderly feel that they still want freedom to live as they want and don't need to yet have an assisted living environment like nursing homes. Long-stay hotel allows the elderly to have their freedom but also help available in case of an emergency (Lewinson & Morgan, 2014). Elderly people, who still stay active, are usually not very satisfied with low quality serviced apartments that is the common living solution for the elderly. They still live most of their lives outside of their homes resulting less dependence on the home environment (Golant, 1982).

As life expectancy is growing and the amount of elderly people grows at the same time, it offers opportunities in the senior housing segment. Elderly people are increasingly wealthier and healthier, and their lifestyles continue to be flexible. This segment has seen growing demand of flexible, high-quality accommodation with proper communal spaces and services available (Savills, 2019)

## 5. Creating competitive advantage by branding apartments

### 5.1. Competitive advantage

Competitive advantage can be defined as anything that positively differentiates a company, a product or a service from its competitors in the eyes of the end-users' but this definition forgets the advantages of processes and other non-visible parts for customers (Walley & Thwaites, 1996). According to Peteraf (1993), competitive advantage is everything that is in the disposal of the company.

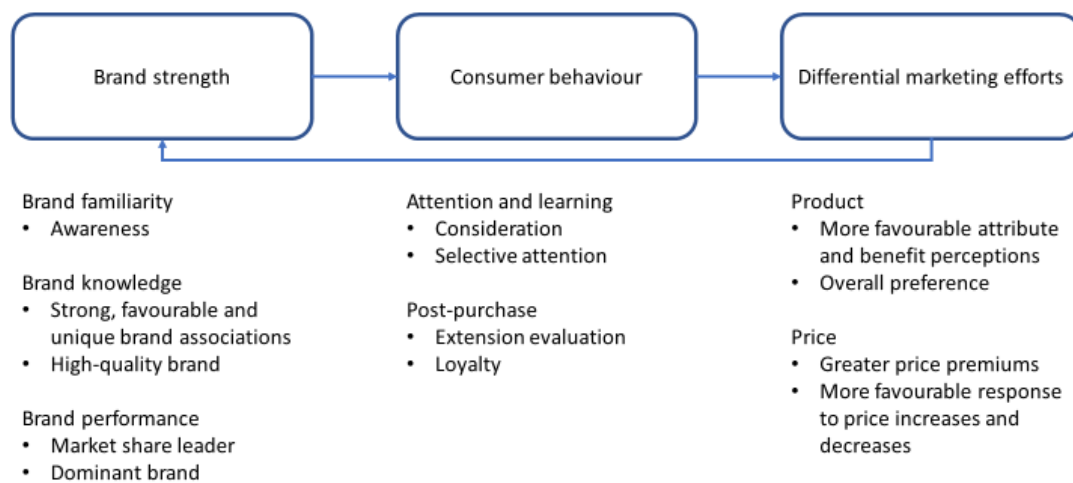
Porter's (1989) model for turning competitive advantage into a corporate strategy provides some basic guidelines to consider when company wants to consider implementing branded apartments into its strategy:

1. *Identifying the interrelationships among already existing business units.*
2. *Selecting the core businesses that will be the foundation of the corporate strategy*
3. *Creating horizontal organizational mechanisms to facilitate interrelationships among the core businesses and lay the groundwork for future related diversification.*
4. *Pursuing diversification opportunities that allow shared activities*
5. *Pursuing diversification through the transfer of skill if opportunities for sharing activities are limited or exhausted.*
6. *Pursuing a strategy of restructuring if this fits the skills of management or no good opportunities exist for forging corporate interrelationships*
7. *Paying dividends so that the shareholders can be the portfolio managers.*

## 5.2. Branding

Branding can be seen as a tool for companies to achieve competitive advantage in the markets (Hoeffler & Keller, 2003). The branding efforts' goal is to gain brand equity, which is the degree to which the brand name alone creates additional value perceived by the consumer to the product (Leuthesser et al., 1995). Brands can create a sort of a personality to the product. Brand personality has five dimensions: sincerity, excitement, competence, sophistication and ruggedness (Aaker, 1997). These personality traits can be utilized to create personal brand for specific places, for example buildings, areas or cities. (Kaplan et al., 2010).

Hoeffler & Keller (2003) summarize brand strength the following way:

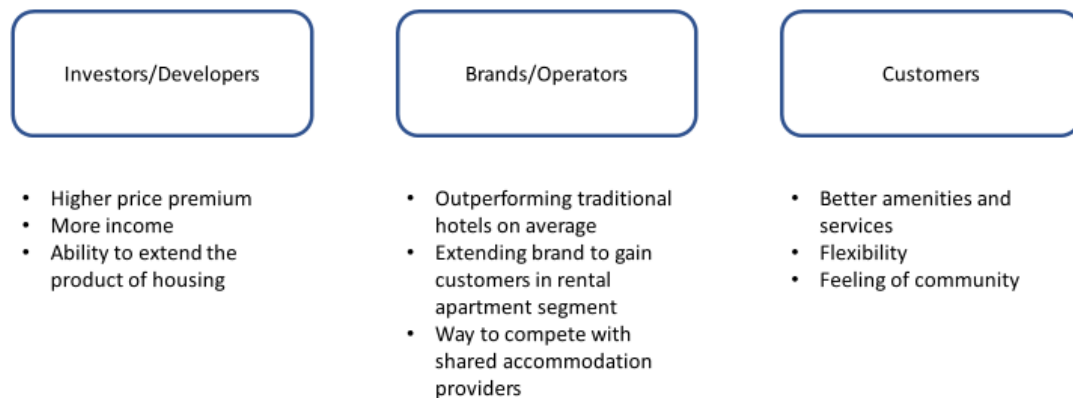


Based on Hoeffler & Keller (2003).



## 6. Conclusions

Branded long-stay accommodation will be growing its market share in the hospitality and housing industry in the future. There is a great opportunity for investors/developers, brand owners and customers to benefit from the development. Branded long-stay accommodation can benefit every stakeholder. Following table shows the benefits for each based on this study:



From the potential customer segments, this study indicates that business travelers and elderly are very interesting target groups for branded long-stay properties. For business travelers, the benefit of flexible rental apartment market is a reason to pay extra money for accommodation in case of a longer business travel. For elderly people the benefits include the flexibility and freedom compared to traditional elderly housing options. Both groups are willing to pay extra for better services and flexibility.

Brands themselves are important for the properties because of the brand equity that they bring for the property. Brands bring three major things to the offering: brand familiarity, quality and services. Brand familiarity can attract especially business travelers to choose a specific property. Quality and services are assumed to come with the brand name so the customers can trust the high-quality promise when making decisions.

## 7. Limitations and future research

The terminology of the long-stay accommodation hasn't been unified so this study so assumptions when categorizing the concepts. There is limited amount of research about long-stay accommodation since it's a relatively new phenomenon. This study doesn't take into consideration the latest development and the outbreak of Covid-19 due to its potentially short disruption to the market.

For future research, more in-depth studies should be conducted about the areas and cities where the long-stay accommodation properties succeed. Better knowledge about the demography and other area-specific traits can help significantly when considering new branded long-stay accommodation developments in new cities and countries. Furthermore, it would be useful to study the users of these properties further; specifically, their decision-making process and reasoning for their accommodation choices.

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